



A REPORT  
TO THE  
MONTANA  
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

# *Department of Revenue*

*For the Two Fiscal Years Ended  
June 30, 2020*

NOVEMBER 2020

LEGISLATIVE AUDIT  
DIVISION

20-14

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**FINANCIAL-COMPLIANCE AUDITS**

Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting and many staff members hold Certified Public Accountant (CPA) certificates.

The Single Audit Act Amendments of 1996 and the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards require the auditor to issue certain financial, internal control, and compliance reports in addition to those reports required by *Government Auditing Standards*. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2019, was issued March 30, 2020. The Single Audit Report for the two fiscal years ended June 30, 2021, will be issued by March 31, 2022.

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# LEGISLATIVE AUDIT DIVISION

Angus Maciver, Legislative Auditor  
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors:  
Cindy Jorgenson  
William Soller

November 2020

The Legislative Audit Committee  
of the Montana State Legislature:

This is our financial-compliance audit report on the Department of Revenue for the two fiscal years ended June 30, 2020. During the audit we focused our audit efforts primarily on the department's activities related to tax collections and distributions to local governments. This included testing individual income, corporate, natural resources, and property taxes collections. Other testing included, but was not limited to, transactions related to liquor taxes and fees, coal taxes, and transfers-in and -out. This report contains no recommendations to the office, and we issued an unmodified opinion .

The department's written response to the audit recommendations is included in the audit report at page C-1. We thank the Director and his staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

*/s/ Angus Maciver*

Angus Maciver  
Legislative Auditor



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## APPOINTED AND ADMINISTRATIVE OFFICIALS

### Department of Revenue

Gene Walborn, Director

Shauna Helfert, Deputy Director

Kristan Barbour, Taxpayer Advocate Communications Director

Charles Geary, Human Resources Director

Ed Caplis, Tax Policy and Research Director

Lee Baerlocher, Administrator, Business & Income Taxes Division

Becky Schlauch, Administrator, Alcoholic Beverage Control Division

Jill Hamilton, Administrator, Information Management and Collections Division

Gordy Conn, Administrator, Property Assessment Division

Manuel Soto, Administrator and Chief Information Officer, Technology Services Division

Margaret Kauska, Chief Security Officer

For additional information concerning the Department of Revenue, contact:

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## MONTANA LEGISLATIVE AUDIT DIVISION

# Department of Revenue

## FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2020

### BACKGROUND

Of the total tax collections, the Department of Revenue (department) deposited around \$2.1 billion, in both fiscal years 2019 and 2020 in the General Fund. The main sources of these taxes are listed below:

- ◆ Individual Income
- ◆ Property
- ◆ Natural Resources
- ◆ Corporate
- ◆ Liquor/Alcohol

In addition to the tax administration, the department establishes values for all taxable property. The department also oversees liquor distribution and licensing operations in the state and administers the eStop licensing program and bad debt collections on behalf of state agencies. The eStop program allows businesses to apply for or renew up to eight state licenses all at once with one payment.

The Montana Department of Revenue administers state tax laws by enforcing regulations for approximately 40 state taxes and fees. The department collected approximately \$2.34 billion in taxes in fiscal year 2019 and \$2.32 billion in fiscal year 2020. Of this, over \$199.12 million was distributed to local governments in fiscal year 2019, and \$191.86 million in fiscal year 2020.

### AUDITOR'S OPINION: **UNMODIFIED**

We found the department's financial schedules presented fairly the activity of the office in all material respects and issued unmodified opinions on the regulatory basis of accounting under which the financial schedules are presented. This means a reader can rely on the information presented and the underlying financial records.

For the full context of the department's financial activity, see the financial schedules and notes beginning on page A-4.

### RECOMMENDATIONS:

This report contains no recommendations to the department.

In this report, we determined the implementation status of recommendations in the prior audit:

Fully Implemented: 3

Partially Implemented: 0

Not Implemented: 0

### SUMMARY OF AUDIT WORK:

During the audit we focused our audit efforts primarily on the department's activities related to tax collections and distributions to local governments. This included testing individual income, corporate, natural resources, and property taxes collections. Other testing included, but was not limited to, transactions related to liquor taxes and fees, coal taxes, and transfers-in and -out. We reviewed the department's internal controls, performed analytical procedures, and reviewed accounting transactions. We also tested the department's compliance with over 130 state laws and regulations, related but not limited to income tax deductions, liquor distributor and wholesaler tax, and residential property tax credits.

For the full report or more information, contact the Legislative Audit Division.

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(Helena)  
(406)-444-4446

Text  
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## **REPORT ON INTERNAL CONTROL AND COMPLIANCE** (page B-1):

In this report, we identified the following:

Material Weaknesses in Internal Control: 0

Significant Deficiencies in Internal Control: 0

Material Non-Compliance: 0

Other Matters: 0

For the full context of this information, including the distinction between the types of items reported, see the report beginning on page B-1.

# Chapter I – Introduction

## **Introduction**

We performed a financial-compliance audit of the Department of Revenue (department) for the two fiscal years ended June 30, 2020. The objectives of our audit were to:

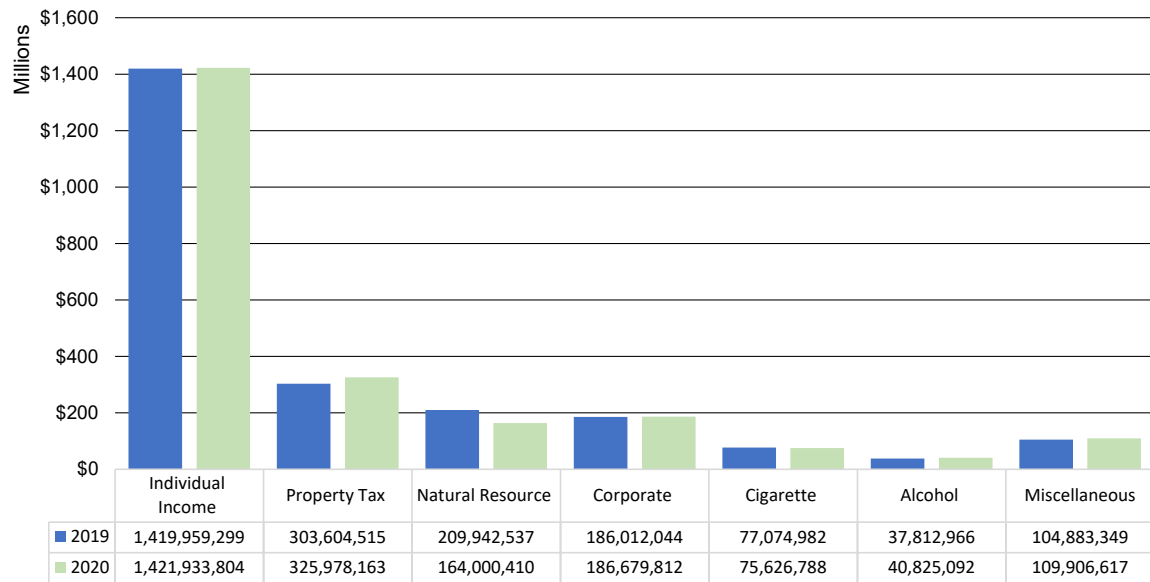
1. Determine whether the department's financial schedules present fairly the results of operations and changes in fund equity for fiscal year 2020 and changes in fund equity and property held in trust in fiscal year 2019.
2. Obtain an understanding of the department's internal control system to the extent necessary to support our audit of the department's financial schedules and, if appropriate, make recommendations for improvements in management and internal controls of the department.
3. Determine whether the department complied with selected state laws and regulations during the audit period.
4. Determine the implementation status of prior audit recommendations.

During the audit we focused our audit efforts primarily on the department's activities related to tax collections and distributions to local governments. This included testing individual income, corporate, natural resources, and property taxes collections. Other testing included, but was not limited to, transactions related to liquor taxes and fees, coal taxes, and transfers-in and -out. Our audit work included understanding the department's internal control policies and procedures, performing analytical procedures, and reviewing accounting transactions. We also reviewed and tested compliance with selected state laws and department policy.

## **Department Organization and Functions**

The department is responsible for the administration of state tax laws and enforcing regulations for numerous state taxes and fees. Revenues collected by the department include, but are not limited to, individual income, corporate income, natural resource, lodging facility use, accommodation, property, alcohol, and tobacco taxes. Department tax revenues are recorded primarily in the General, State Special Revenue, and Permanent Funds. Additionally, the department regulates the sale and distribution of alcoholic beverages in the state. The associated taxes are recorded in the Enterprise Fund. Figure 1 (see page 2) shows the total taxes collected by the department in fiscal years 2019 and 2020 by type.

Figure 1  
**Taxes by Tax Type**  
 Fiscal Years 2019-2020



Source: Compiled by the Legislative Audit Division from State Accounting, Budgeting and Human Resource System records.

The department also distributes various tax revenues based on requirements in law. The two largest distributions relate to the local government's entitlement share revenue and oil and natural gas production taxes. The entitlement share is recorded in the Director's Office. The distributions of oil and natural gas production taxes to counties and school districts are also recorded in the Director's Office.

For fiscal year 2020, the department employed a total of 623.67 full-time equivalent (FTE) employees. The department went through a reorganization in fiscal year 2020 (as described in Note 8). The following summarizes the department's structure, after reorganization, in fiscal year 2020.

**Director's Office** (73.19 FTE) provides overall department direction and management. It also supports the agency's director and is composed of the following nine works units:

- ◆ Citizen and Financial Services Office
- ◆ Communications and Taxpayer Outreach Office
- ◆ Enterprise, Planning, and Analysis Office

- ◆ Executive Office
- ◆ Legal Services Office
- ◆ Office of Dispute Resolution
- ◆ Procurement, Contracts, and Facilities Office
- ◆ Security Office
- ◆ Tax Policy and Research

**Alcoholic Beverage Control Division** (31.75 FTE) administers the state's Alcoholic Beverage Code, which governs the control, sale, and distribution of alcoholic beverages. The division includes licensing of brokers, manufacturers, wholesalers, importers, and retailers.

**Business & Income Taxes Division** (136.86 FTE) administers and collects 40 Montana taxes and fees, oversees tax audits and verifies compliance with Montana tax laws for all state taxes, oversees state revenue collection activity, and completes appraisals and assessments of industrial and centrally assessed property.

**Information Management and Collections Division** (71.95 FTE) provides consistent service to Montana citizens, businesses, and nonresident taxpayers through collection of delinquent accounts, and data and remittance processing operations. The Other Agency Debts Program provides statewide collection services to other state agencies, local governments, universities, and colleges. The Collections Bureau manages collections of the department's delinquent debts and provides collection services to other state agencies and local governments. The Information Management Bureau ensures secure handling and processing of taxpayer information, payments, and data in electronic or paper form. The bureau is organized into four units: Account Maintenance and Cashiering, Information Capture, Electronic Services (EServices), and Mail and Imaging.

**Property Assessment Division** (276.92 FTE) is responsible for the valuation and assessment of residential, commercial, agricultural, forestland, and business equipment property throughout the state for property tax purposes. The division has a central office located in Helena, and four regional offices.

**Technology Services Division** (33 FTE) serves as the technological foundation for the department's business units. The Applications Bureau provides programming and maintenance to the department's software applications. The Quality Assurance Bureau ensures the integrity and performance of department systems by providing guidance, direction, and training for testing and maintaining systems. The Technical Operations Bureau provides support and training for department hardware and software systems.

## **Advisory Councils, Boards, and Memberships**

The department is a member of the Multistate Tax Commission, the Federation of Tax Administrators, the Western States Association of Tax Administrators, the National Alcohol and Beverage Control Association, the International Association of Assessing Officers, and the National Association of Unclaimed Property Administrators. The department's advisory councils include:

**Agricultural Land Valuation Advisory Council** is created by §15-7-201(7), MCA, to advise the department concerning the valuation of agricultural property. This council must include a staff member from the Montana State University-Bozeman, College of Agriculture. This advisory council is not a policy-making body and has no rule-making authority.

**Board of Review** is established in §30-16-302, MCA, and provides policy direction to the department in establishing and operating the eStop business licensing program. The board is attached to the department for administrative purposes only and has separate rule-making authority under §30-16-104, MCA.

**Forest Land Taxation Advisory Council** is created by §15-44-103(10), MCA, to advise the department concerning the valuation of forest land property. The committee consists of seven members, four members with expertise in forest matters, and three members appointed by the governor.

## **Internal Service Fund**

As required by §17-8-101(6), MCA, we analyzed the fees and charges for services and the fund equity of the department's internal service fund, which is used to provide bad debt collection services to state agencies. While department activities to collect debts are ongoing throughout the year, bad debt collections primarily occur during the months of March through June when the department can offset the debts against requested tax refunds. Due to this business practice, we considered fees to be reasonable and commensurate with costs if a fund's working capital was positive and did not exceed 240 days of expense activity for the fund. Additionally, we considered fund equity to be reasonable if, once adjusted for non-cash liabilities for pension and Other Post-Employment benefits, the fund equity balance not associated with capitalized assets was positive and did not exceed the 240 days of working capital.

Based on our analysis of the fund balances and activity at fiscal year-end June 30, 2019, and 2020, we determined fees are not commensurate with cost for both fiscal years, as revenues exceeded expenditures and working capital and fund equity were

excessive. However, the fund equity was spent down from July through February in each year when collections lag and expenditures exceed revenues.

In fiscal year 2020, the department implemented Governmental Accounting Standards Board Statement No. 84, *Fiduciary Activities*. The department's Agency Fund, which accounted for a portion of bad debt collections, was reclassified to an Internal Service Fund. There was a significant influx of cash into the Internal Service Fund during fiscal year 2020 as a result of implementation of the new accounting standards. Because this transaction took place on the last day of the audit period, we excluded it from our internal service fund analysis.

Since the excess working capital was primarily a result of a change in the accounting standards and the nonfiscal year nature of the operations, we make no recommendation at this time. The department is aware of this issue and needs to consider the impact for the 2023 biennium.

### **Prior Audit Recommendations**

The prior audit for the fiscal years ended June 30, 2018, contained three recommendations. The recommendations related to property tax allocation, statutory appropriation, and capitalization of GenTax upgrades. During the current audit period we evaluated the corrective actions the department took to implement the prior recommendations. Based on the results of our testing, the department implemented all three prior audit recommendations.





# **Independent Auditor's Report and Department Financial Schedules**



Angus Maciver, Legislative Auditor  
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors:  
Cindy Jorgenson  
William Soller

## INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee  
of the Montana State Legislature:

### *Introduction*

We have audited the accompanying Schedule of Changes in Fund Equity, Schedule of Total Revenues & Transfers-In, and Schedule of Total Expenditures & Transfers-Out for the fiscal year ended June 30, 2020, and the Schedule of Changes in Fund Equity & Property Held in Trust, Schedule of Total Revenues & Transfers-In, and Schedule of Total Expenditures & Transfers-Out for the fiscal year ended June 30, 2019, for the Department of Revenue, and the related notes to the financial schedules.

### *Management's Responsibility for the Financial Schedules*

Management is responsible for the preparation and fair presentation of these financial schedules in accordance with the regulatory format prescribed by the Legislative Audit Committee, based on the transactions posted to the state's accounting system without adjustment; this responsibility includes recording transactions in accordance with state accounting policy; and designing, implementing, and maintaining internal controls relevant to the preparation and fair presentation of the financial schedules that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express opinions on these financial schedules based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial schedules. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial schedules, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the department's preparation and fair presentation of the financial schedules in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the department's internal control, and accordingly, we express no such opinion. An

audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as the overall presentation of the financial schedules.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

*Basis for Adverse Opinions on U.S. Generally Accepted Accounting Principles*

As described in Note 1, the financial schedules are prepared from the transactions posted to the state's primary accounting system without adjustment, in the regulatory format prescribed by the Legislative Audit Committee. This is a basis of accounting other than accounting principles generally accepted in the United States of America. The financial schedules are not intended to, and do not report assets, deferred inflows and outflows of resources, liabilities, and cash flows.

The effects on the financial schedules of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

*Adverse Opinions on U.S. Generally Accepted Accounting Principles*

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinions on U.S. Generally Accepted Accounting Principles" paragraph, the financial schedules referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the department as of June 30, 2020, and June 30, 2019, or changes in financial position for the years then ended.

*Unmodified Opinions on Regulatory Basis of Accounting*

In our opinion, the Schedules of Changes in Fund Equity, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out for the fiscal year ended June 30, 2020, and the Schedules of Changes in Fund Equity and Property Held in Trust, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out for fiscal year ended June 30, 2019, present fairly, in all material respects, the results of operations and changes in fund equity of the Department of Revenue for each of the fiscal years ended June 30, 2020, and 2019, in conformity with the basis of accounting described in Note 1.

*Emphasis of Matter*

As disclosed in Note 1 – Basis of Presentation, the financial schedule format was adopted by the Legislative Audit Committee. On June 16, 2020, the Committee approved a change in format to remove the presentation of revenue estimates from the Schedule of Total Revenues & Transfers-In. Our opinion is not modified with respect to this matter.

*Other Reporting Required by Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 9, 2020, on our consideration of the Department of Revenue's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the department's internal control over financial reporting and compliance.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA  
Deputy Legislative Auditor  
Helena, MT

October 9, 2020

DEPARTMENT OF REVENUE  
SCHEDULE OF CHANGES IN FUND EQUITY  
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Enterprise Fund	Internal Service Fund	Private Purpose Trust Fund	Permanent Fund
FUND EQUITY: July 1, 2019	\$ <u>(36,799,855)</u>	\$ <u>34,076,363</u>	\$ <u>(39,250)</u>	\$ <u>752,063</u>	\$ <u>1,847,650</u>	\$ <u>7,214,606</u>	\$ <u>62,946</u>	\$ <u>889,910</u>	\$ <u>1,269,654,245</u>
ADDITIONS									
Budgeted Revenues & Transfers-In	2,181,100,209	307,036,810	594,336		9,607,698	149,159,884	290,272		71,667,052
Nonbudgeted Revenues & Transfers-In	1,038,999	1,738,820	338	2,166,994		69,168		4,590,285	62,596,803
Prior Year Revenues & Transfers-In Adjustments	(3,647,661)	(552,309)	39,250	24,676	(196,757)	(20,236)		(90)	(1,046,050)
Direct Entries to Fund Equity	<u>(1,898,841,011)</u>	<u>(260,110,132)</u>		<u>(2,097,003)</u>	<u>(8,534,066)</u>	<u>(1,303,070)</u>	<u>11,831</u>		<u>(931,203)</u>
Total Additions	<u>279,650,535</u>	<u>48,113,190</u>	<u>633,924</u>	<u>94,667</u>	<u>876,875</u>	<u>147,905,747</u>	<u>302,103</u>	<u>4,590,195</u>	<u>132,286,602</u>
REDUCTIONS									
Budgeted Expenditures & Transfers-Out	196,470,792	51,554,159	594,698			147,318,627	242,783		
Nonbudgeted Expenditures & Transfers-Out	136,499	842,423				268,586	(12,868)	4,079,286	61,107,703
Prior Year Expenditures & Transfers-Out Adjustments	<u>(29,372)</u>	<u>778,892</u>				<u>(0)</u>			
Total Reductions	<u>196,577,918</u>	<u>53,175,473</u>	<u>594,698</u>	<u>0</u>	<u>0</u>	<u>147,587,212</u>	<u>229,915</u>	<u>4,079,286</u>	<u>61,107,703</u>
FUND EQUITY: June 30, 2020	\$ <u><u>46,272,762</u></u>	\$ <u><u>29,014,080</u></u>	\$ <u><u>(24)</u></u>	\$ <u><u>846,730</u></u>	\$ <u><u>2,724,525</u></u>	\$ <u><u>7,533,141</u></u>	\$ <u><u>135,135</u></u>	\$ <u><u>1,400,820</u></u>	\$ <u><u>1,340,833,143</u></u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF REVENUE  
SCHEDULE OF CHANGES IN FUND EQUITY & PROPERTY HELD IN TRUST  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Enterprise Fund	Internal Service Fund	Agency Fund	Private Purpose Trust Fund	Permanent Fund
FUND EQUITY: July 1, 2018	\$ (49,846,834)	\$ 32,889,673	\$ 0	\$ 662,845	\$ 1,811,153	\$ 6,707,334	\$ 24,781	\$ 0	\$ 1,308,522	\$ 1,199,026,907
PROPERTY HELD IN TRUST: July 1, 2018								\$ 302,290		
ADDITIONS										
Budgeted Revenues & Transfers-In	2,162,398,818	283,512,330	457,251		8,788,731	134,622,212	276,357			78,327,725
Nonbudgeted Revenues & Transfers-In	7,941,202	5,933,954	259	1,963,858		11,430		5	5,395,766	68,707,945
Prior Year Revenues & Transfers-In Adjustments	(683,821)	(2,472,634)		72,110	149,624	(36,738)		(5)	(46)	220,315
Direct Entries to Fund Equity	(1,965,777,653)	(221,126,720)		(1,946,750)	(8,901,858)	(1,326,730)	1,020	(0)		(1,158,408)
Additions to Property Held in Trust								7,842,791		
Total Additions	203,878,546	65,846,931	457,509	89,218	36,497	133,270,173	277,377	7,842,791	5,395,720	146,097,577
REDUCTIONS										
Budgeted Expenditures & Transfers-Out	188,468,967	65,090,655	496,760			132,946,806	223,230			
Nonbudgeted Expenditures & Transfers-Out	2,360,929	34,593				(183,560)	15,983		5,814,332	75,473,239
Prior Year Expenditures & Transfers-Out Adjustments	1,671	(465,006)				(345)				(3,000)
Reductions in Property Held in Trust								7,746,197		
Total Reductions	190,831,567	64,660,241	496,760	0	0	132,762,901	239,212	7,746,197	5,814,332	75,470,239
FUND EQUITY: June 30, 2019	\$ (36,799,855)	\$ 34,076,363	\$ (39,250)	\$ 752,063	\$ 1,847,650	\$ 7,214,606	\$ 62,946	\$ 0	\$ 889,910	\$ 1,269,654,245
PROPERTY HELD IN TRUST: June 30, 2019								\$ 398,884		

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF REVENUE  
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN  
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Enterprise Fund	Internal Service Fund	Private Purpose Trust Fund	Permanent Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS										
Licenses and Permits	\$ 4,108,364	\$ 86,804,520				\$ 5,741,346				\$ 96,654,230
Taxes	2,082,165,806	174,910,936		\$ 2,191,670	\$ 9,410,941	32,556,725			\$ 23,414,608	2,324,650,686
Charges for Services	1,599	15,593,043				7,250	\$ 290,272			15,892,164
Investment Earnings	(8,742)							\$ 13,571	86,039,549	86,044,378
Fines and Forfeits						778,101				778,101
Sale of Documents, Merchandise and Property						110,076,175				110,076,175
Grants, Contracts, and Donations	9,223,122	615,719						4,576,624		14,415,465
Transfers-in	66,258,906	24,044,024	\$ 55,944						23,763,648	114,122,522
Inception of Lease/Installment Contract	89,217									89,217
Federal Indirect Cost Recoveries	82,360		338							82,698
Miscellaneous	(1,979,419)	71,635				49,220				(1,858,564)
Federal	18,550,333	6,183,444	577,642							25,311,420
Total Revenues & Transfers-In	2,178,491,546	308,223,322	633,924	2,191,670	9,410,941	149,208,817	290,272	4,590,195	133,217,805	2,786,258,492
Less: Nonbudgeted Revenues & Transfers-In	1,038,999	1,738,820	338	2,166,994		69,168		4,590,285	62,596,803	72,201,407
Prior Year Revenues & Transfers-In Adjustments	(3,647,661)	(552,309)	39,250	24,676	(196,757)	(20,236)		(90)	(1,046,050)	(5,399,177)
Actual Budgeted Revenues & Transfers-In	\$ 2,181,100,209	\$ 307,036,810	\$ 594,336	\$ 0	\$ 9,607,698	\$ 149,159,884	\$ 290,272	\$ 0	\$ 71,667,052	\$ 2,719,456,262

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DEPARTMENT OF REVENUE  
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Enterprise Fund	Internal Service Fund	Agency Fund	Private Purpose Trust Fund	Permanent Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS											
Licenses and Permits	\$ 4,340,077	\$ 41,425,962				\$ 3,079,236					\$ 48,845,275
Taxes	2,076,777,619	189,667,726		\$ 2,035,968	\$ 8,938,355	30,068,284				\$ 31,801,740	2,339,289,691
Charges for Services	2,602	15,012,562				6,467	\$ 276,357				15,297,988
Investment Earnings	(97,188)							\$ 15,041		83,402,155	83,320,008
Fines and Forfeits						229,755					229,755
Sale of Documents, Merchandise and Property						101,166,011					101,166,011
Grants, Contracts, and Donations	5,847,414	605,707							5,380,679		11,833,800
Transfers-in	56,023,869	33,179,293								32,052,091	121,255,252
Federal Indirect Cost Recoveries	73,871		\$ 259								74,130
Miscellaneous	5,535,301	31,522				47,150					5,613,973
Federal	21,152,635	7,050,878	457,251								28,660,764
Total Revenues & Transfers-In	2,169,656,199	286,973,650	457,509	2,035,968	8,938,355	134,596,904	276,357	0	5,395,720	147,255,985	2,755,586,648
Less: Nonbudgeted Revenues & Transfers-In	7,941,202	5,933,954	259	1,963,858		11,430		\$ 5	5,395,766	68,707,945	89,954,419
Prior Year Revenues & Transfers-In Adjustments	(683,821)	(2,472,634)		72,110	149,624	(36,738)		(5)	(46)	220,315	(2,751,195)
Actual Budgeted Revenues & Transfers-In	\$ 2,162,398,818	\$ 283,512,330	\$ 457,251	\$ 0	\$ 8,788,731	\$ 134,622,212	\$ 276,357	\$ 0	\$ 0	\$ 78,327,725	\$ 2,668,383,423

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DEPARTMENT OF REVENUE  
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	Alcoholic Beverage Control Division	Business & Income Taxes Division	Directors Office	Information Management & Collections	Property Assessment Division	Technology Services Division	Total
Personal Services							
Salaries	\$ 1,676,956	\$ 7,139,929	\$ 4,575,737	\$ 2,809,395	\$ 13,039,190	\$ 2,202,312	\$ 31,443,518
Hourly Wages		(651)	(9,834)	(5,861)		(216,452)	(232,798)
Employee Benefits	655,932	2,835,118	1,658,785	1,215,801	5,678,332	751,999	12,795,967
Personal Services-Other	45,102			726			45,828
Total	2,377,990	9,974,396	6,224,688	4,020,060	18,717,522	2,737,858	44,052,515
Operating Expenses							
Other Services	119,260	744,866	938,509	374,431	552,242	1,057,188	3,786,496
Supplies & Materials	130,189	97,197	157,253	172,404	492,721	761,869	1,811,632
Communications	41,249	178,158	111,230	759,972	414,130	61,250	1,565,988
Travel	19,235	135,353	60,708	5,496	134,089	11,992	366,874
Rent	37,401	292,111	309,698	531,268	1,860,019	78,121	3,108,619
Utilities	45,795						45,795
Repair & Maintenance	85,800	55	182	16,510	41,787	2,756,356	2,900,690
Other Expenses	281,812	238,633	377,576	61,068	73,148	18,170	1,050,406
Goods Purchased For Resale	93,179,213						93,179,213
Total	93,939,956	1,686,373	1,955,156	1,921,148	3,568,136	4,744,946	107,815,713
Equipment & Intangible Assets							
Equipment	(30,401)	27,281	16,981	10,741	16,744		41,346
Intangible Assets			(32,001)			2,306,183	2,274,182
Total	(30,401)	27,281	(15,020)	10,741	16,744	2,306,183	2,315,528
Capital Outlay							
Other Improvements			182,884	149,456	52,119		384,460
Total			182,884	149,456	52,119		384,460
Local Assistance							
From State Sources			191,058,232	795,966			191,854,198
Total			191,058,232	795,966			191,854,198
From Other Sources							
Distrib from Priv Purp Trusts			4,015,577				4,015,577
Total			4,015,577				4,015,577
Transfers-out							
Fund transfers	50,772,873		61,971,412				112,744,285
Total	50,772,873		61,971,412				112,744,285
Debt Service							
Loans	7,763						7,763
Capital Leases	167	5,536	3,449	2,182	6,138		17,472
Total	7,931	5,536	3,449	2,182	6,138		25,235
Post Employment Benefits							
Other Post Employment Benefits	6,087			528			6,614
Employer Pension Expense	128,740			9,341			138,081
Total	134,826			9,869			144,695
Total Expenditures & Transfers-Out	\$ 147,203,175	\$ 11,693,585	\$ 265,396,377	\$ 6,909,422	\$ 22,360,660	\$ 9,788,987	\$ 463,352,206
EXPENDITURES & TRANSFERS-OUT BY FUND							
General Fund		\$ 10,466,077	\$ 148,536,259	\$ 5,812,441	\$ 22,341,011	\$ 9,422,131	\$ 196,577,918
State Special Revenue Fund	\$ 22,157	688,738	51,516,993	849,439	14,287	83,859	53,175,473
Federal Special Revenue Fund	21,847	538,769	672	1,005	5,362	27,042	594,698
Enterprise Fund	147,159,171		155,465	16,621		255,955	147,587,212
Internal Service Fund				229,915			229,915
Private Purpose Trust Fund			4,079,286				4,079,286
Permanent Fund			61,107,703				61,107,703
Total Expenditures & Transfers-Out	147,203,175	11,693,585	265,396,377	6,909,422	22,360,660	9,788,987	463,352,206
Less: Nonbudgeted Expenditures & Transfers-Out	290,742	110,960	65,990,652	(10,119)	24,663	14,730	66,421,628
Prior Year Expenditures & Transfers-Out Adjustments	(0)		(32,192)	781,330	382		749,519
Actual Budgeted Expenditures & Transfers-Out	146,912,433	11,582,625	199,437,917	6,138,211	22,335,615	9,774,257	396,181,059
Budget Authority	157,658,250	12,033,719	235,585,255	8,325,143	22,517,924	9,957,714	446,078,005
Unspent Budget Authority	\$ 10,745,817	\$ 451,094	\$ 36,147,338	\$ 2,186,932	\$ 182,309	\$ 183,457	\$ 49,896,946
UNSPENT BUDGET AUTHORITY BY FUND							
General Fund		\$ 106,498	\$ 620,246	\$ 2,182,982	\$ 182,309	\$ 183,457	\$ 3,275,491
State Special Revenue Fund		51,393	35,527,092				35,578,484
Federal Special Revenue Fund		293,204					293,204
Enterprise Fund	\$ 10,745,817						10,745,817
Internal Service Fund				3,950			3,950
Unspent Budget Authority	\$ 10,745,817	\$ 451,094	\$ 36,147,338	\$ 2,186,932	\$ 182,309	\$ 183,457	\$ 49,896,946

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF REVENUE  
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

	Alcoholic Beverage Control Division	Business & Income Taxes Division	Directors Office	Citizen Services and Resource Management Division	Property Assessment Division	Total
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT						
Personal Services						
Salaries	\$ 1,480,284	\$ 6,932,095	\$ 5,690,942	\$ 3,560,818	\$ 11,763,351	\$ 29,427,490
Hourly Wages					53	53
Employee Benefits	501,533	2,843,440	1,972,437	1,587,151	5,248,510	12,153,072
Personal Services-Other	14,955			2,190		17,145
Total	<u>1,996,772</u>	<u>9,775,535</u>	<u>7,663,379</u>	<u>5,150,159</u>	<u>17,011,914</u>	<u>41,597,759</u>
Operating Expenses						
Other Services	84,460	475,395	2,119,828	640,757	718,421	4,038,860
Supplies & Materials	54,184	109,009	498,590	76,649	450,906	1,189,337
Communications	51,202	169,203	186,649	998,200	397,496	1,802,749
Travel	28,080	136,899	63,813	6,482	74,325	309,598
Rent	37,985	344,319	201,911	802,814	1,666,007	3,053,036
Utilities	39,284					39,284
Repair & Maintenance	194,406	100	3,703,249	14,740	67,949	3,980,444
Other Expenses	(267,847)	221,849	57,647	82,391	29,292	123,332
Goods Purchased For Resale	86,086,866					86,086,866
Total	<u>86,308,620</u>	<u>1,456,772</u>	<u>6,831,686</u>	<u>2,622,032</u>	<u>3,404,396</u>	<u>100,623,506</u>
Equipment & Intangible Assets						
Equipment	65,902					65,902
Intangible Assets			3,556,355			3,556,355
Total	<u>65,902</u>		<u>3,556,355</u>			<u>3,622,257</u>
Local Assistance						
From State Sources			135,580,657	63,544,084		199,124,741
Total			<u>135,580,657</u>	<u>63,544,084</u>		<u>199,124,741</u>
From Other Sources						
Distrib from Priv Purp Trusts				5,294,182		5,294,182
Total				<u>5,294,182</u>		<u>5,294,182</u>
Transfers-out						
Fund transfers	43,739,962				75,990,389	119,730,350
Total	<u>43,739,962</u>				<u>75,990,389</u>	<u>119,730,350</u>
Debt Service						
Loans	8,454					8,454
Total	<u>8,454</u>					<u>8,454</u>
Post Employment Benefits						
Other Post Employment Benefits	8,074			841		8,916
Employer Pension Expense	241,997			23,090		265,087
Total	<u>250,071</u>			<u>23,932</u>		<u>274,003</u>
Total Expenditures & Transfers-Out	\$ <u>132,369,781</u>	\$ <u>11,232,307</u>	\$ <u>153,632,077</u>	\$ <u>76,634,389</u>	\$ <u>96,406,698</u>	\$ <u>470,275,253</u>
EXPENDITURES & TRANSFERS-OUT BY FUND						
General Fund		\$ 10,007,496	\$ 153,118,944	\$ 7,303,119	\$ 20,402,009	\$ 190,831,567
State Special Revenue Fund	\$ 22,522	728,052	137,493	63,757,873	14,301	64,660,241
Federal Special Revenue Fund		496,760				496,760
Enterprise Fund	132,347,258		375,640	40,003		132,762,901
Internal Service Fund				239,212		239,212
Private Purpose Trust Fund				5,294,182	520,150	5,814,332
Permanent Fund					75,470,239	75,470,239
Total Expenditures & Transfers-Out	132,369,781	11,232,307	153,632,077	76,634,389	96,406,698	470,275,253
Less: Nonbudgeted Expenditures & Transfers-Out	(161,037)	65,324	2,334,273	5,304,068	75,972,889	83,515,516
Prior Year Expenditures & Transfers-Out Adjustments	(345)		49	(465,006)	(1,378)	(466,680)
Actual Budgeted Expenditures & Transfers-Out	132,531,163	11,166,983	151,297,755	71,795,328	20,435,188	387,226,417
Budget Authority	160,941,099	11,790,088	151,936,484	76,871,307	20,459,565	421,998,542
Unspent Budget Authority	\$ <u>28,409,936</u>	\$ <u>623,104</u>	\$ <u>638,729</u>	\$ <u>5,075,979</u>	\$ <u>24,377</u>	\$ <u>34,772,126</u>
UNSPENT BUDGET AUTHORITY BY FUND						
General Fund		\$ 16,453	\$ 306,990	\$ 7,202	\$ 24,377	\$ 355,022
State Special Revenue Fund		49,627	331,739	5,066,622		5,447,988
Federal Special Revenue Fund		557,024				557,024
Enterprise Fund	\$ 28,409,936					28,409,936
Internal Service Fund				2,155		2,155
Unspent Budget Authority	\$ <u>28,409,936</u>	\$ <u>623,104</u>	\$ <u>638,729</u>	\$ <u>5,075,979</u>	\$ <u>24,377</u>	\$ <u>34,772,126</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.



## Department of Revenue Notes to the Financial Schedules For the Two Fiscal Years Ended June 30, 2020

### 1. Summary of Significant Accounting Policies

#### **Basis of Accounting**

The department uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund category (General, State Special Revenue, Federal Special Revenue, Capital Projects, Debt Service, and Permanent). In applying the modified accrual basis, the department records:

- ♦ Revenues when it receives cash or when receipts are realizable, measurable, earned, and available to pay current period liabilities.
- ♦ Expenditures for valid obligations when the department incurs the related liability and it is measurable, except for the cost of employees' annual and sick leave. State accounting policy requires the department to record the cost of employees' annual and sick leave when used or paid.

The department uses accrual basis accounting for its Proprietary (Enterprise and Internal Service) and Fiduciary (Private-Purpose Trust and Agency/Custodial) fund categories. Under the accrual basis, as defined by state accounting policy, the department records revenues in the accounting period when realizable, measurable, and earned, and records expenses in the period incurred when measurable.

Expenditures and expenses may include: entire budgeted service contracts even though the department receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

#### **Basis of Presentation**

The financial schedule format was adopted by the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment. Due to GASB reporting changes, property held in trust is not presented on the fiscal year 2020 Schedules of Changes in Fund Equity. Additionally, the Legislative Audit Committee voted to remove revenue estimates from the Statement of Total Revenues and Transfers-In for the fiscal years ending 2019 and 2020.

The department uses the following funds:

### Governmental Fund Category

- ♦ **General Fund** – to account for all financial resources except those required to be accounted for in another fund. The department records various tax receipts in the General Fund. The primary expenditures in the General Fund include department payroll costs and distribution of the General Fund entitlement share payments to cities and counties.
- ♦ **State Special Revenue Fund** – to account for proceeds of specific revenue sources (other than private-purpose trusts or major capital projects) that are legally restricted to expenditures for specific state program purposes. Department State Special Revenue Funds include various earmarked tax accounts.
- ♦ **Federal Special Revenue Fund** – to account for activities funded from federal revenue sources. Department Federal Special Revenue Funds relate to the Federal Mineral Royalty Audit Program and the fiscal year 2020 Coronavirus Aid, Relief, and Economic Security (CARES) Act.
- ♦ **Debt Service Fund** – to account for accumulated resources for the payment of general long-term debt of principal and interest. The department deposits coal, metal mine, and resource indemnity taxes into this fund type.
- ♦ **Capital Projects Fund** – to account for financial resources used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds or trust funds. Coal severance tax and cigarette tax revenues collected by the department in support of the state Long Range Building Program are accounted for in capital project funds. A portion of lodging facility sales tax revenues are deposited into the Montana Heritage Center capital projects fund.
- ♦ **Permanent Fund** – to account for financial resources that are permanently restricted to the extent that only earnings, and not principal, may be used for purposes that support the government's programs. The department uses this fund to account for its activity in the Permanent Coal Trust Fund; the Cultural Trust Fund; the Coal Severance Tax Income and Bond Funds; the Resource Indemnity Trust and Income Funds; the Treasure State Endowment, Income Regional Water System, and Regional Water Income Funds; the Big Sky Economic Development Funds; and the School Facilities Fund and Income Fund.

### Proprietary Fund Category

- ♦ **Internal Service Fund** – to account for the financing of goods or services provided by one department or agency to other departments or agencies of state government or to other governmental entities on a cost-reimbursement basis. The department's Internal Service Fund accounts for other agency debt collection activity.
- ♦ **Enterprise Fund** – to account for operations (a) financed and operated in a manner similar to private business enterprises, where the Legislature intends

that the department finance or recover costs primarily through user charges; (b) where the Legislature has decided that periodic determination of revenues earned, expenses incurred or net income is appropriate; (c) where the activity is financed solely by a pledge of the net revenues from fees and charges of the activity; or (d) when laws or regulations require that the activities' cost of providing services, including capital costs, be recovered with fees and charges rather than with taxes or similar revenues. The department's Enterprise Fund accounts for the Alcoholic Beverage Control Division's administration of the alcoholic beverage code.

### **Fiduciary Fund Category**

- ♦ **Private-Purpose Trust Fund** – to account for activity of any trust arrangement not properly reported in a pension fund or an investment trust fund where the principal and income benefit individuals, private organizations, or other governments. Department Private-Purpose Trust Funds are used to account for unclaimed property, escheated property, and unlocated mineral owner interests.
- ♦ **Agency/Custodial Fund** – to account for resources held by the state in a custodial capacity. Agency/custodial funds may be used on a limited basis for internal (to the State) clearing account activity, but these must have a zero balance at fiscal year-end. For fiscal year 2019, property held in trust, accounts 2506A and 2504B, have a balance at fiscal year-end because other agency debts captured during the offset process must be held in a custodial manner for thirty days for debtor notification and appeal. Due to passage of GASB 84, other agency debt collection was moved from the agency/custodial fund to the internal service fund in fiscal year 2020. The department agency/custodial funds are used as clearing accounts to facilitate the distribution of receipts from the administration of the eStop licensing program, the county collection reports, dishonored checks, treasury deposit and bank corrections, Automated Clearing House (ACH) collections and reversals, and account receivable activity.

## **2. General Fund Equity Balance**

The negative fund equity balance in the General Fund does not indicate overspent appropriation authority. The department has authority to pay obligations from the statewide General Fund within its appropriation limits. The department expends cash or other assets from the statewide fund when it pays General Fund obligations. The department's outstanding liabilities exceed the assets it placed in the fund, resulting in negative ending General Fund equity balance for the fiscal year ended June 30, 2019.

Conversely, the department's total assets placed in the fund exceed outstanding liabilities, resulting in a positive ending General Fund balance for the fiscal year ended June 30, 2020. This balance reflects the results of the activity of the department and not the fund balance of the statewide General Fund.

### **3. Direct Entries to Fund Equity**

Direct entries to fund equity in the General, State Special Revenue, Debt Service, Capital Projects, Enterprise, and Permanent funds include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies. In fiscal year 2019, an adjustment was made to transfer GenTax, the department's tax software, from the Department of Administration to Department of Revenue. Due to legislative changes associated with emergency telephone tax revenue, an adjustment was made in fiscal year 2019 to transfer the fund balance between State Special Revenue Funds.

### **4. Nonbudgeted Expenditures and Transfers-out**

Nonbudgeted and Prior Year Expenditures and Transfers Out Adjustments in the permanent fund, on the Schedule of Changes in Fund Equity & Property Held in Trust, is approximately \$75.4 million in fiscal year 2019 and \$61.1 million in fiscal year 2020. These amounts are also reflected on the Schedule of Total Expenditures & Transfers-Out and are related to the coal tax transfers required by state law. These include transfers from the Coal Tax Bond Fund, distributions of investment earnings in the Treasure State Endowment Funds, Big Sky Economic Development Fund, Resource Indemnity Trust Fund, School Facilities Fund, and the coal tax trust funds.

### **5. Unspent Budget Authority**

The Schedule of Total Expenditures & Transfers-out for fiscal year 2019 report unspent budget authority under the Citizen Services and Resource Management Division of \$5,066,622 in the State Special Revenue Fund. The Schedule of Total Expenditures and Transfers-out for fiscal year 2020 report unspent budget authority in the Director's Office of \$35,527,092 in the State Special Revenue Fund. The Alcoholic Beverage Control Division had unspent budget authority in the Enterprise Fund in fiscal years 2019 and 2020 of \$28,409,936 and \$10,745,817, respectively.

The fiscal year 2019 unspent budget authority in the Citizen Services and Resource Management Division and the fiscal year 2020 unspent budget authority in the Director's Office is created due to fiscal year 2019 and 2020 revenues collected or accrued and distributed to local governments being less than estimated. Fiscal years 2019 and 2020 combined oil and natural gas production tax estimates were created based on higher natural gas prices and production than were realized. Due to legislative changes, only the fiscal year 2020 third and fourth quarter accruals were recorded in the combined oil and gas natural resources account. In addition, distributions of bentonite taxes to Carbon and Carter counties for fiscal years 2019 and 2020 were less than estimated.



The Alcoholic Beverage Control Division receives language appropriations for funds necessary to maintain adequate inventories; pay freight charges; and transfer profits, taxes, and liquor licensing revenues to the appropriate accounts. In fiscal years 2019 and 2020, the appropriation was not to exceed \$160.9 million and \$157.7 million, respectively. The department purchased inventory and distributed profits and taxes based upon the volume of sales and did not spend up to the total appropriation authority. The language appropriation for the transfer of licensing revenues also includes appropriation authority for both the Department of Revenue and the Department of Justice to administer liquor licensing. By law, the transfer of the licensing revenue is net of the appropriation authority for the Department of Revenue and the Department of Justice and deferred revenues.

## **6. Prior Year Revenues**

On the Schedule of Changes in Fund Equity & Property Held in Trust and the Schedule of Total Revenues & Transfers-In for fiscal year 2019, the department recorded transactions that total (\$2,472,634) in the State Special Revenue Fund; (\$683,821) and (\$3,647,661) in the General Fund for fiscal years 2019 and 2020, respectively; and \$149,624 and (\$196,757) in the capital projects fund for fiscal years 2019 and 2020, respectively. Additionally, the department recorded prior year revenues in the Permanent Fund for fiscal years 2019 and 2020 for \$220,315 and (\$1,046,050), respectively. These differences are explained below:

- ♦ **General Fund** – The majority of this activity includes the difference between reversing estimated revenues accrued in the prior year versus reclassifying current year actual revenue collections as prior year revenues plus the reversal of accounts receivable revenues accrued in the prior year at fiscal year-end.
- ♦ **Capital Projects Fund** – Fiscal year 2019 and 2020 activity represents the difference between the estimated fiscal year 2019 and 2020 revenue accruals for coal severance tax and reclassifying current year actual revenue collections as prior year revenue.
- ♦ **Permanent Fund** – This activity represents the difference between reversing estimated coal severance tax revenues accrued in the prior year versus reclassifying current year actual coal severance tax revenue collections as prior year revenues. Additionally, fiscal year 2019 reflects the reversal of accounts receivable revenues for coal severance tax accrued in the prior year at fiscal year-end.

## **7. Financial Schedules Rounding**

The financial schedules for the two fiscal years ended June 30, 2020, do not foot or cross-foot due to rounding. However, the rounding issue is immaterial and the department considers the schedules an accurate representation of the financial activity reported in SABHRS by the department.

## **8. Program Name Change**

The department went through a reorganization in fiscal year 2020. The Citizen Services and Resource Management Division was renamed the Information Management and Collections Division because the centralized support functions of the division (citizen and financial services) were moved to the Director's Office. The fiscal year 2020 Schedule of Expenditures and Transfers-Out reflects the name change. Additionally, the Information Technology Bureau was moved out of the Director's Office and renamed to the Technology Services Division to provide better communications to other divisions within the department.

# **Report on Internal Control and Compliance**



# LEGISLATIVE AUDIT DIVISION

B-1

Angus Maciver, Legislative Auditor  
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors:  
Cindy Jorgenson  
William Soller

## REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL SCHEDULES PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Legislative Audit Committee  
of the Montana State Legislature:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Schedule of Changes in Fund Equity, Schedule of Total Revenues & Transfers-In, and Schedule of Total Expenditures & Transfers-Out for the fiscal year ended June 30, 2020, and the Schedule of Changes in Fund Equity & Property Held in Trust, Schedule of Total Revenues & Transfers-In, and Schedule of Total Expenditures & Transfers-Out for the fiscal year ended June 30, 2019, for the Department of Revenue, and the related notes to the financial schedules, and have issued our report thereon dated October 9, 2020.

### *Internal Control Over Financial Reporting*

In planning and performing our audit of the financial schedules, we considered the department's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial schedules, but not for the purpose of expressing an opinion on the effectiveness of the department's internal control. Accordingly, we do not express an opinion on the effectiveness of the department's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial schedules will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal controls was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material

weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### *Compliance and Other Matters*

As part of obtaining reasonable assurance about whether the department's financial schedules are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### *Purpose of this Report*

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the department's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the department's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA  
Deputy Legislative Auditor  
Helena, MT

October 9, 2020

DEPARTMENT OF REVENUE

DEPARTMENT RESPONSE







C-1

Governor Steve Bullock

Director Gene Walborn

**RECEIVED**

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**LEGISLATIVE AUDIT DIV.**

November 13, 2020

Angus Maciver, Legislative Auditor  
Legislative Audit Division  
Room 160, State Capitol  
P O Box 201705  
Helena, MT 59620-1705

Dear Mr. Maciver:

Thank you for the opportunity to respond to the Financial-Compliance Audit Report recently completed for the two fiscal years ended June 30, 2020. This audit report includes no recommendations with which the department concurs.

I want to thank your staff who conducted the audit for their professional approach and their fairness in working through the issues as they were raised.

Sincerely,

A handwritten signature in black ink, appearing to read "Gene Walborn".

Gene Walborn, Director